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TAGS: ENRG EINV PGOV EU NL
SUBJECT: NETHERLANDS/ENERGY: DUTCH MOVE FORWARD WITH
OWNERSHIP UNBUNDLING

THE HAGUE 00000246 001.2 OF 002

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ACCORDINGLY.

¶1. (SBU) SUMMARY. The Netherlands is moving forward with plans to unbundle its public energy (gas and electricity) sector by 2011. Unbundling is expected to increase network efficiency and reliability and cut costs, primarily to industrial and business customers. However, the plans are facing growing opposition from major Dutch energy companies, which are concerned about unbundling-related costs and becoming acquisition targets. Meanwhile, the Dutch say their efforts are in line with EU Commission plans and argue that Franco-German proposals for a "third way," allowing large energy companies to maintain ownership and limited control over transmission and storage assets, would put Dutch energy companies at a competitive disadvantage. END SUMMARY.

2011 -- TARGET DATE FOR UNBUNDLING

¶2. (SBU) Emboffs met recently with Bert Roukens, a Senior Advisor responsible for energy security and energy market liberalization at the Ministry of Economic Affairs (MEA). Roukens said the Dutch will proceed with Economic Minister Maria van der Hoeven's plans to split the country's public gas and power companies through an unbundling law that will become effective July 1, 2008. Currently, these energy companies -- which generally sell both electricity and gas and are owned by provinces or municipalities -- are permitted to own both network and distribution (retail and wholesale) holdings. Under the new law, energy companies must divest their network holdings by January 1, 2011. This will create two types of energy companies: regulated network companies applying users' fees set by the central government (the DTe, or Office of Energy Regulation) and distribution companies dealing with trade, supply, and production.

DISTRIBUTION OPEN TO PRIVATIZATION / NETWORKS TO REMAIN PUBLIC
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¶3. (SBU) Municipalities will be allowed to privatize their distribution companies, if they wish, with "no restrictions on foreign ownership," Roukens added, but network companies will remain in public hands. Retaining public ownership of network companies addresses GONL concerns about possible risks associated with an acquisition by a foreign company

"such as Gazprom," Roukens said. Until 2011, and as long as network components remain an element of an energy company's holdings, at least 51 percent of the parent company will need to remain in public hands. (NOTE. TenneT is the legally unbundled owner and operator of the Dutch national electricity transmission network. The unbundling law will also require energy companies to cede management of their high voltage networks (over 110KV) to TenneT. In the gas market, Gasunie Gas Transport Services is the national transmission system operator. TenneT and Gasunie are 100 percent owned by the Ministry of Finance, with the MEA responsible for setting policy. Energy companies currently operate in a competitive downstream market that was fully liberalized in July 2004. END NOTE.)

GOVERNMENT SEES BENEFITS OF UNBUNDLING

¶4. (SBU) Roukens said the unbundling plan would increase transparency and remove barriers to competition by allowing suppliers equal access to the Netherlands' energy network, which was also expected to become more reliable through independent, simpler, and stronger supervision. The ultimate goal, Roukens said, was to increase energy market efficiency and supply reliability and reduce costs. According to Roukens, initial studies suggested that business and industrial customer costs could fall by 20 percent under the plan due to greater competition within the market. These customers would also benefit from volume discounts, derivatives, and hedging. Residential users were expected to benefit through some cost reductions and greater choices. Because of a different tax and transport charge structure that accounts for up to five-sixths of residential users' bills, however, Roukens said increased competition would only reduce costs on one-sixth of residential energy bills. Roukens predicted that unbundling would lead to greater interdependence among the network companies and their

distributors.

INITIAL INDUSTRY REACTIONS HOSTILE

¶5. (U) Meanwhile, large Dutch energy distributors have grown increasingly hostile toward the unbundling plan. The Netherlands' largest utility Nuon -- with 2.5 million customers in the provinces of Gelderland (44 percent), Friesland (13 percent) and Noord-Holland (10 percent) -- has expressed fears that its small size would prevent it from buying other firms while possibly becoming an acquisition target itself. The company announced on February 18 that unbundling would result in "considerable costs" and that it was considering legal action against the GONL to recover unbundling-related expenses. Essent, whose 2.4 million customers in the provinces of Noord-Brabant (31 percent), Overijssel (18 percent), and Limburg (16 percent) make it the second largest Dutch utility, announced its own lawsuit against the MEA in December 2007. Eneco -- whose 2 million customers largely reside in the country's largest cities of Rotterdam (31 percent), The Hague (17 percent), and Dordrecht (9 percent) -- claimed that existing laws sufficiently safeguard the Dutch energy supply. In September 2007, Eneco started legal proceedings against what it views as the GONL's forced unbundling.

IN STEP WITH THE COMMISSION

¶6. (SBU) Roukens said Dutch efforts were consistent with the EU Commission's energy unbundling plans. However, he predicted that the Commission would move toward greater support for independent system operators as a compromise to countries that oppose the splitting of integrated energy companies. He noted Economic Minister van der Hoeven has publicly supported the EU Commission's plans, urging

Commissioners Adris Pielbags (Energy) and Neelie Kroes (Competition) to proceed with their unbundling efforts and criticizing Franco-German proposals for a third way as "only a slight adjustment" to the current EU directive. He indicated that this "third way" would allow vertically-integrated companies such as France's EDF to maintain ownership and limited control over transmission and storage assets. Roukens worried that the Franco-German proposals would also place unbundled Dutch energy companies at a competitive disadvantage versus larger national champion energy companies.
Gallagher